



LEGISLATIVE TRAIN 06.2022

2 A EUROPE FIT FOR THE DIGITAL AGE

DIGITAL FINANCE STRATEGY FOR THE EU / BEFORE 2020-10

[DEPARTED]

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Having been invited by Parliament in a May 2017 own-initiative resolution to take more action in financial technology (fintech) sectors such as big data, cybersecurity, blockchain, interoperability, financial stability, financial and IT skills, the European Commission tabled an action plan on fintech in March 2018. The plan set out 19 steps to promote innovative business models and the uptake of new technologies (e.g. artificial intelligence and cloud services), to increase cybersecurity and the integrity of the financial system, and to enhance further investor, consumer and data protection. It also envisaged the introduction of regulatory sandboxes, which can be considered 'safe spaces' where (national) supervisors apply rules to fintech firms in a more flexible way so that businesses can test their models, products and services for a limited time and without being exposed to red tape. The EU FinTech Lab was set up to build capacity and knowledge among regulators and supervisors. It held its first meeting in June 2018. In this setting, the Commission put forward new rules to help EU crowdfunding platforms scale up.

On 29 January 2020, the European Commission's new work programme was published. Under the second priority 'A Europe fit for the digital age', the Commission announced its intention to launch a new action plan on fintech in the third quarter of 2020. At the end of May of the same year, the Commission adjusted its work programme for 2020, prioritising initiatives that it considered essential or necessary for the EU's recovery after the crisis brought about by the Covid-19 pandemic. In this context, it confirmed its commitment to table a new action plan on fintech by the end of the year. Among other things, the action plan would include a strategy on an integrated EU payments market.

Taking account of the stated priorities of the European Commission's digital agenda, the advice of the European Supervisory Authorities (ESAs), the outcome of various public consultations and other important inputs, on 24 September 2020, the Commission followed up on its commitment by adopting a comprehensive package on digital finance, including:

- a communication on a Digital Finance Strategy (DFS), laying down general lines on how the EU can support the digital transformation of finance in the coming years, while regulating its risks, and
- a communication on a renewed strategy for modern and safe retail payments (see specific fiche in this Train).

The DFS pursues four objectives, which are supposed to mutually reinforce each other:

- tackling fragmentation in the Digital Single Market for financial services, thereby enabling European consumers to access cross-border services and help European financial firms scale up their technology-enabled business;
- ensuring that the EU regulatory framework facilitates digital innovation in the interest of consumers and market efficiency;
- creating a European financial data space to promote data-driven innovation, building on the European data strategy, including enhanced access to data and data sharing within the financial sector;
- addressing new challenges and risks associated with the digital transformation, in particular to ensure conformity with the “same risk, same rule” principle.

The benefits stemming from such approach would be the following:

- better financial products for consumers and new ways of channelling funding to EU businesses, in particular SMEs
- supporting to the Europe’s economic recovery strategy and opening up new channels to mobilise funding to support the Green Deal and the New Industrial Strategy for Europe
- enhance financial market integration in the Banking Union and the Capital Markets Union through cross-border digital finance
- Strengthening Europe’s ability to retain and reinforce its open strategic autonomy in financial services.

The DFS takes action in five main areas of intervention:

1. Enabling EU-wide interoperable digital identities in finance. That entails strict rules to identify customers and prevent money laundering, rules on harmonised customer identification in EU Member States, and a single digital identification across Europe. A single solution is proposed for businesses, while customers would only need to identify themselves once.
2. Fostering open finance by promoting business-to-business data sharing in the EU financial sector and beyond. That requires, on the one hand, to ensure that consumers have better access and control over their personal data, on the other hand, to allow financial services providers to access to more customer and business data to offer more personalised services. Measures to enable people and businesses to compare products and find more cost-effective options are also envisaged.
3. Clear and comprehensive EU rules for crypto-assets. The DFS aims to reap the benefits of crypto-assets while regulating their risks, such as thefts from digital wallets, fraud, use for money laundering. A European passport for crypto-assets with strong safeguards to ensure consumer protection and financial stability is considered beneficial.
4. Mitigating risks of digital transformation by strict and common rules on digital operational resilience. The DFS proposes all financial entities to be subject to operational resilience requirements to ensure a safe financial system across sectors and avoid a domino reaction. Critical ICT third-party providers (e.g. cloud computing services) would be subject to oversight to ensure they do not pose undue operational risks for finance.
5. Implementing the principle “same activity, same risks, same rules”, also by better equipping supervisors.

The DFS is accompanied by legislative proposals for: a regulation on a pilot regime for market infrastructures based on distributed ledger technology (the Pilot Regime), a regulation on markets in crypto-assets (MiCA) and a regulation on digital operational resilience (DORA) complemented by a directive (see respective fiches in this Train).

A few days before the adoption of the DFS, the European Parliament voted on a legislative initiative resolution on emerging risks in crypto-assets, pointing out regulatory and supervisory challenges in the area of financial services, institutions and markets (see specific fiche in Train ECON).

On 6 October 2020, Finance ministers exchanged views on the digital finance package presented by the Commission in September 2020. They pointed out their broad support for the package.

References:

- European Commission, [Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of The Regions on a Digital Finance Strategy for the EU](#), COM(2020) 591
- European Commission, [Commission Work Programme 2020 – A Union that strives for more](#), COM(2020) 37
- European Commission, Work Programme 2020 [Annex I: new initiatives](#)
- European Commission, Communication on [FinTech Action plan: For a more competitive and innovative European financial sector](#), COM(2018) 109

Further reading:

- EPRS, [Fintech \(financial technology\) and the European Union: State of play and outlook](#), Briefing, February 2019
- EPRS, [Financial technology \(FinTech\): Prospects and challenges for the EU](#), Briefing, March 2017

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